

Subtitle A—Company-Owned Life Insurance

SEC. 501. DENIAL OF DEDUCTION FOR INTEREST ON LOANS WITH RESPECT TO COMPANY-OWNED LIFE INSURANCE.

(a) IN GENERAL.—Paragraph (4) of section 264(a) is amended—

- (1) by inserting "or any endowment or annuity contracts owned by the taxpayer covering any individual," after "the life of any individual", and
- (2) by striking all that follows "carried on by the taxpayer" and inserting a period.

(b) EXCEPTION FOR CONTRACTS RELATING TO KEY PERSONS:
PERMISSIBLE INTEREST RATES.—Section 264 is amended

- (3) by striking "Any" in subsection (a)(4) and inserting
- "Except as provided in subsection (d), any" and
- (4) by adding at the end the following new subsection:

"(d) SPECIAL RULES FOR APPLICATION OF SUBSECTION (a)(4).—

"(1) EXCEPTION FOR KEY PERSONS.—Subsection (a)(4) shall not apply to any interest paid or accrued on any indebtedness with respect to policies or contracts covering an individual who is a key person to the extent that the aggregate amount of such indebtedness with respect to policies and contracts covering such individual does not exceed \$50,000.

"(2) INTEREST RATE CAP ON KEY PERSONS AND PRE-1986 CONTRACTS.—

"(A) IN GENERAL.—No deduction shall be allowed by reason of paragraph (1) or the last sentence of subsection (a) with respect to interest paid or accrued for any month beginning after December 31, 1995, to the extent the amount of such interest exceeds the amount which would have been determined if the applicable rate of interest were used for such month.

"(B) APPLICABLE RATE OF INTEREST.—For purposes of

subparagraph (A)—

"(i) IN GENERAL.—The applicable rate of interest for any month is the rate of interest described as Moody's Corporate Bond Yield Average Monthly Average Corporates as published by Moody's Investors Service, Inc., or any successor thereto, for such month.

"(ii) PRE-1986 CONTRACTS.—In the case of indebted-

ness on a contract purchased on or before
June 20,
1986—

"(I) which is a contract providing a
fixed rate
of interest. the applicable rate of
interest for any
month shall be the Moody's rate
described in
clause (i) for the month in which the
contract
was purchased. or

"(II) which is a contract providing a
variable
rate of interest. the applicable rate of
interest for
any month in an applicable period shall
be such
Moody's rate for the third month
preceding the
first month in such period.

For purposes of subclause (II). the taxpayer
shall elect
an applicable period for such contract on
its return
of tax imposed by this chapter for its
first taxable
year ending on or after October 13,
1995. Such